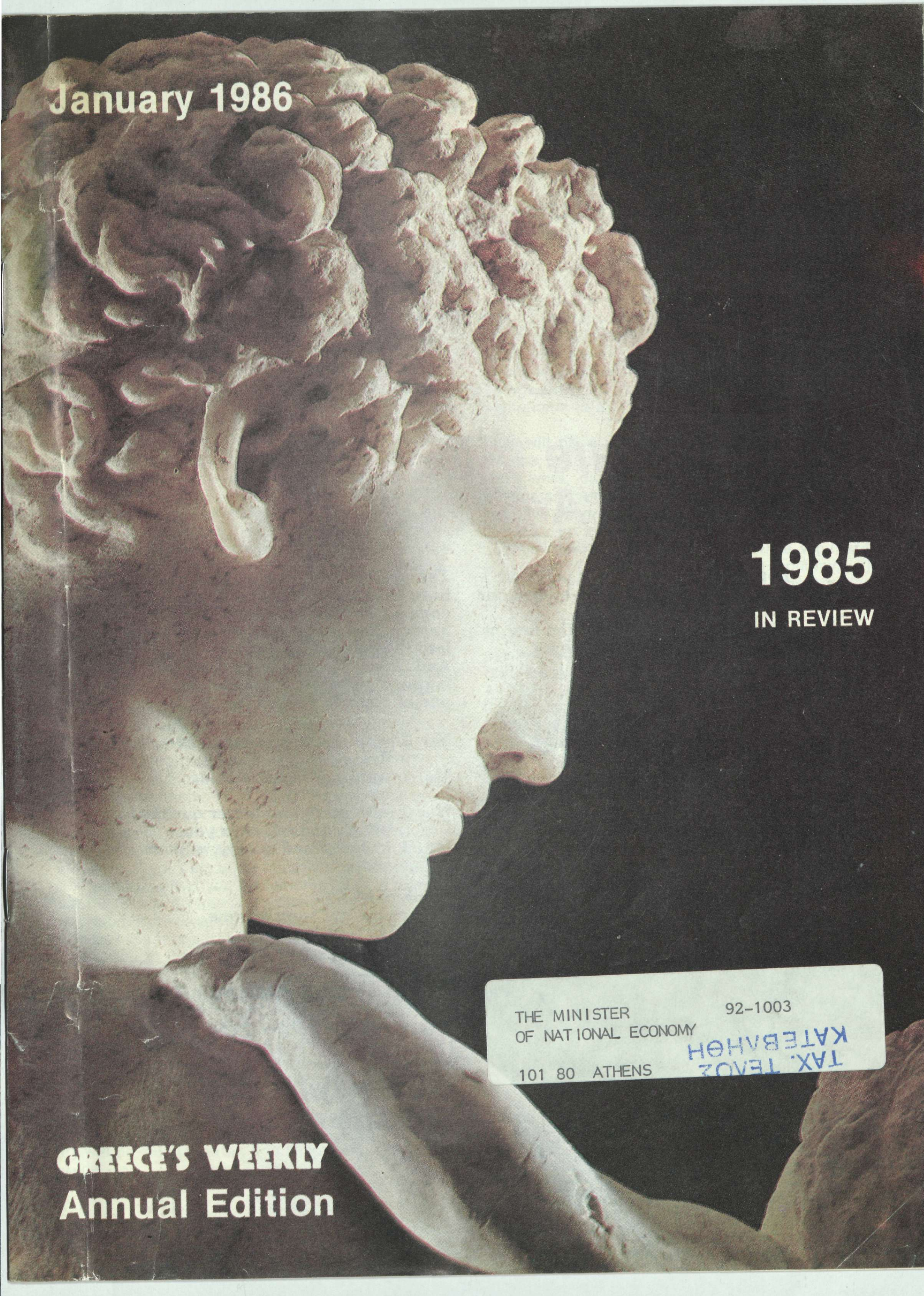

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Socialism on the rocks

PASOK compounded predecessor's mistakes by ensuring a more equitable distribution of income

By George Ventry-Canning

When writing up a year's review of the Greek economy's main trends, it is singularly difficult to confine the text to facts and figures without making mention of parallel political developments because Greece is one of those countries where economic decisions are made more on political rather than practical and objective considerations. At least, that is what most unbiased foreign observers have been led to believe.

This, broadly speaking, has been the root cause of Greece's economic problems for generations, and not as many might imagine, just during the present Socialist government's four-year tenure of office.

Today's government, of course, has been and still is bound by its declared dogmatic Socialist principles, but its greatest problem has been to find means to wriggle out of unworkable Socialist practice toward more orthodox economic methods.

For reasons which need not be analyzed here, the present ruling party found itself in the bizarre situation of a Socialist administration having to advocate Socialist reform but, in practice, having to seek means to cure the ills of clumsy Socialist experimentation attempted by predecessor Right-wing governments.

To illustrate this, it is sufficient to recall that it was a Right-wing administration which, 10 years ago, nationalized the country's largest chain of privately-owned banks with a number of their industrial subsidiary companies and also the national airlines owned by the late shipping tycoon, Aristotle Onassis.

All the concerns in question (barring Olympic Airways in the last year prior to nationalization, which was 1974) had been operating at a handsome profit and were paying taxes toward inland revenue. The banking-industrial complex was nationalized more because of a personal feud rather than for any national economic necessity.

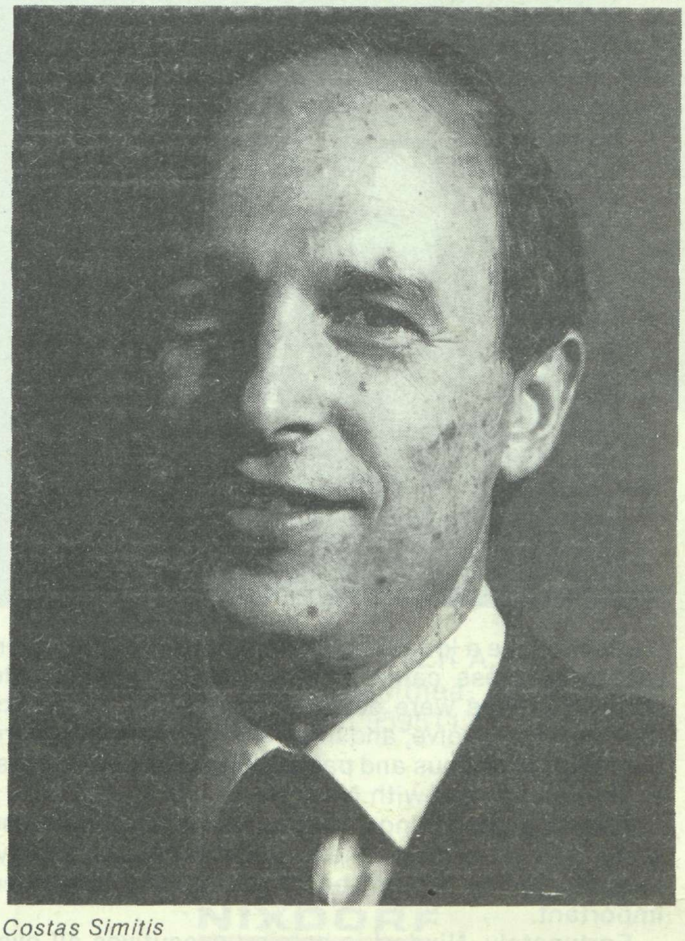
Impossible to repay loans

In exactly the same way but for contrary reasons, namely because of personal friendships and financing of political organizations, a number of private firms were financed to a degree incompatible with prospects of the beneficiaries ever being able to repay the loans they had received.

Thus, it came about that the present Socialist government inherited some nationalized private firms for which there had been no need to nationalize and a greater number of private firms which were badly in the red and should never have been repeatedly financed with loans taken from the public's savings.

PASOK itself did not nationalize in four years of office a single healthy industrial or commercial undertaking in private hands. What it did was to legislate in a manner which gave it the right to take over ailing firms and virtually assume responsibility for their debts and further operation.

This is the point at which things went wrong. Because of its Socialist dogma, the PASOK Socialists could not hand over to more able private hands the indebted firms nor close them down for fear of the



Costas Simitis

political cost of not taking them into public ownership.

Normally, in any capitalist economy, free of political interference, creditor banks would simply close in on debtor firms and take over their assets to recover as much as possible of their losses. If the banks judged that the firms could be profitably revived, they would either run them for their own account or offer them to private entrepreneurs of their choice and confidence.

In Greece, as the creditor banks were more than 95% state-owned, even if that procedure had been followed, the end result would have been the same. The ailing firms (commonly known as "problem firms") would still have ended up in the hands of the state.

Nationalization without compensation

The state in any country, Greece par excellence, is a poor business manager. This caused the present government in its fourth year to find that the 41 problem companies it had taken over had incurred deficits totaling 70 billion drs., from 7 billion when they were first taken over and "Socialized," which is the word in vogue now for nationalization without compensation.

This question of ailing firms is one aspect of the government's economic problems which have accumulated during the year ending December 31, 1985. It accounts for a good 10% of the country's total budget deficit. In all fairness, therefore, it should be said that the PASOK Socialists inherited this problem when they took power but, instead of curing it, made it worse.

Another inherited ill was that of incomes policy. Predecessor Right-wing governments are by no means innocent of the fault of trying to curry favor and political support by allowing wage and salary increases, especially in the public sector, way beyond the real value of the work performed for such pay.

The present government had a chance to put a stop to that nonsense when it first took office after a strong electoral victory in late 1981. Instead, it repeated, only on a much larger scale, the mistake of its predecessors on the grounds of ensuring "a more equitable distribution of incomes for the poorer paid."

What, in fact happened, was that people were paid more for doing less and what was worst, still, were taught to expect this as an annual acquired right. This practice also helped bring matters to a head during the year under review, 1985.

Predecessor governments had indulged in appointing to the public service too large a number of persons who might otherwise have been doing productive work. This has been an endemic feature of the Greek economy for 150 years and PASOK can certainly not be blamed for starting it, but neither can it claim credit for putting an end to it as it could and should have done because of the strong majority with which it started its career four years ago.

An overburdened state machine

Instead, it has earned itself perhaps the worst record of any Greek government for the degree to which it has burdened the state machine with supernumerary and useless people and institutions which are no better than talk shops.

This practice also came to a head by the end of 1985 and so the combination of the three factors mentioned above, all related to politics, brought the country to its present state of near-bankruptcy.

In five words, a bad situation rendered worse.

It is of little use quoting specific figures on the subjects treated above, which may have appeared at intervals, first, because they will be several months old anyway and have already been published, and second, because many, emanating from Greek public services, have been challenged for their accuracy by such international bodies as the OECD, the IMF, etc. It is the general trends that matter. For example, while the OECD has spoken of a total Greek foreign debt of $18 billion, official Greek figures speak of $12 billion.

Faced with a virtual halt to all private investment of any significance, almost since it took over in late 1981, the PASOK ruling party first said the state itself would make all the necessary productive investments from which private entrepreneurs were shrinking and then when it found it could not do so, began talking about joint enterprises and offering incentives through a new law, 1262/82. By the end of 1985 it became obvious that this policy also was not producing results.

Country approaches bankruptcy

The course of the economy in 1985 showed those at the top of government that there would have to be a change of some kind. Rising inflation, falling production, rising imports, rising unemployment, falling invisible receipts which used to cover part of the country's chronic trade deficit, all made it quite obvious even to the most simple-minded amateur that it could continue thus no longer short of bankruptcy.

Hence, the final burst of magnanimity and promises of good days ahead to win re-election in June 1985, already described in the political section of this review. The object was to win a new four-year term of office and then immediately begin a reverse count-down to restore orthodox economic practices.

From July, 1985 onward, there was the gradual revelation that all was not well with the economy, despite the assurances given only weeks earlier to the contrary.

On October 11th, the package of austerity measures was announced, coupled with a 15% drachma devaluation. These also are being dealt with at greater length under a separate chapter.

The upshot is that the close of 1985 finds the nation with inflation at 25% at the very least, a stop-gap loan arranged by the European Community of 1.75 billion ECU's, but to be drawn over a period of two years with interim inspections to ascertain that the strings tied to it have been faithfully observed and more dependence than ever before, except perhaps in the days of "Marshall Aid" when Greece was licking its war wounds, on the West.

Bonanza fails to materialize

The bonanza promised to the Greek people throughout the first four years, which was to result from increased economic cooperation with countries of the Eastern Bloc and of the Third World, proved by the end of 1985 to be no more than a soap bubble for the very simple reason which every sane private businessman knew. These countries, at best, are very short of convertible currency, if not entirely broke. If they do manage to squeeze out some funds from their strained availabilities, it is only if they desire and expect a quick political return of major importance to them.

Summit or high-level visits to these countries brought back copies of extensive general agreements for economic cooperation, joint enterprises, contracts for Greek construction firms on projects in their territories, technological cooperation and the like.

Who remembers the 11,000 workers' dwellings or apartments a Greek state-run engineering construction corporation was to have built since 1982 in Algeria, tourist hotels in the U.S.S.R., and other public works in Libya and Iraq? All have come to nothing.

What of the $2 billion Colonel Kadhafi promised to invest in productive projects in Greece, what of the aluminum factory to have been financed by Iraq in Greece, what of plans by other Eastern Bloc countries to invest in machine tool production in Greece, farm tractors and chemical plants?

The only project which still holds possibilities of realization is the proposed Soviet aluminum factory on the shores of the Gulf of Corinth, but even this had run into some fresh trouble at the close of 1985 when some uncertainty had arisen as to whether the Bulgarian government would be able to absorb the crucial 200,000 tons of aluminum per annum it had originally promised to take.

The most that was ever achieved with these countries has been a modest increase with some of them in traditional commercial exchanges, mostly on bilateral barter terms with, here and there, a broadening of the variety of goods Greece has been able to export to them.

No pomp and circumstance needed

This, however, could just as easily have been achieved through normal diplomatic and commercial contacts on Chamber of Commerce or Ministry of Trade levels without need for formal summit expeditions and red carpets, guards of honor and other sensational presentations.

After the October 11th package of austerity measures, the admission has been made that succour can only come from the West, no matter how politically distasteful to the PASOK radicals but, no doubt, extremely welcome to the PASOK leadership, if it can be secured.

This admission has brought with it a halt to all criticism of Western economic methods and also an equally significant halt to any more talk of far-reaching economic cooperation with this or that country of the Eastern Bloc or Third World.

Attention is at last riveted on averting bankruptcy at home and, hopefully, a package of measures to help economic growth will be announced early in the New Year to supplement the austerity measures introduced in early October, if their efficacy is not to be wasted.

If the opportunity is lost this time, many business quarters fear that a fresh devaluation of anything up to 18% may become unavoidable by January 15th or thereabouts. Such a possibility has been categorically denied by the Prime Minister himself, both in Parliament and also at a major press conference. However, twice before, such denials, though not as formal as this last one, have been followed very soon by the feared devaluations.

One final aspect of economic trends in 1985 has been the question of incomes policy. It was explained above that for years wages and salaries had been allowed to increase beyond any improvement in productivity, with all the adverse consequences which accompany such a practice.

Considerable waste in government

The situation was worst in the public sector, both the civil service itself and also in state-run corporations. Employees in these institutions arrived at a point in 1985 when they were earning twice and more as much as those doing similar work in private firms. The result was that everyone was trying to get himself or herself a job in one or other form of public service.

The law forbids wage and salary cuts. Levels fixed for the public service and by collective labor agreements in private employment are acquired rights. Accordingly, the government chose to use devaluation, which was occurring anyway, as the weapon for circumventing this restriction. It froze wage and salary rates for two years and forbade the granting of any indexed increment for the last four months of 1985, during which inflation rose by as much as 12%-13% out of the total 25% increase for the year.

This hit the purchasing power of all wage and salary earners. However, as those in private employment would obviously suffer most, the government has intimated it will lend a blind eye to any extras private employers might find it pays them to give their staff in the form of nominal overtime, supposed traveling or other expenses, productivity bonuses, etc., which do not offend the letter of the law which speaks of new collective labor agreements granting higher official basic wage and salary levels.

The government will not be granting the same extras in the civil service. In fact, it has been chasing up cases where overtime payments of questionable veracity have been made. In this manner, it is hoped to achieve the dual purpose of narrowing the gap between pay rates in the public service and those in private employment. The fact that this has begun to be felt is reflected in the far higher percentage of strikes now occurring in public institutions than among workers in private employment. It will also hopefully provide incentives for better output in the private sector.

Private enterprise methods needed

It could be interpreted as the beginning of a switch in practice toward the more orthodox methods of running enterprises in the private sector though, of course, still miles distant from the American "hire-and-fire" principle.

The Athens Stock Exchange, though very small from the point of view of the value of transactions conducted in it, is nevertheless a very sensitive instrument for gauging the state and prospects of the country's economy.

It is significant to note in this connection that, whereas in late June this year the allshare index based on 1964 as 100, was 878.68, the Bank Shares Index 1,495.63 and that for Industrials 523.81 at the close of the year the Indices had worked their way up to 1,112.60, 1,866.83 and 667.33 respectively.

This means that, while the government was still assuring the nation that the economy was doing fine, values kept falling. As soon as the government began to come out with the truth or at least part of it and hinting at austerity measures, values began to rise, even though throughout the second half of the year company results and overall economic indicators were in way better than during the first half.

The Stock Exchange simply sensed that at last the government was coming to grips with reality and that there were hopes that the private sector of the economy might see a glimmer of hope.